

## **EXECUTIVE SUMMARY**

### **Introduction**

The Bases Conversion and Development Authority (BCDA) recognizes that its subsidiary, the BCDA Management and Holdings, Incorporated (BMHI), plays a strategic role as an efficient provider of project management support to BCDA. It is envisioned that BMHI shall serve as a holding company that will hold and prime BCDA properties for eventual privatization. The flexibility afforded by BMHI is the appropriate solution for the project-based nature of BCDA's undertakings where services are time-bound, not permanent and more often specialized and highly technical.

However, on October 31, 2014, the BCDA Board issued Board Resolution No. 2014-08-140 ceasing BMHI's operations. Thereafter, the Governance Commission for Government-Owned and Controlled Corporations (GCG) issued Memorandum Order (MO) No. 2015-06 dated July 01, 2015, classifying BMHI as under "De-Activation," which means that although its juridical personality remains existing and unaffected, nonetheless, it ceases to be a business enterprise or a going concern.

The MO directed BCDA to: (a) act as successor-in-interest of BMHI's assets, liabilities and obligations; (b) assume the functions of BMHI; (c) implement the plan of action for the affected employees; and (d) resolve all audit findings issued by the Commission on Audit.

BMHI's de-activation took effect on August 01, 2016. On October 03, 2016, BCDA issued Special Order No. 261 creating a Management Team for BMHI to manage and supervise the disbursements, collection, legal cases and other transactions pertaining to and to be retained by BMHI.

Effective August 01, 2016, all projects handled by BMHI for BCDA were turned over to BCDA except for the collection of unit amortization, monthly dues and/or common area lights and similar charges for the National Police Commission/Philippine National Police Housing Project, which was retained by BMHI.

### **Scope and Objectives of Audit**

The audit covered the accounts, transactions and operations of BMHI for calendar years 2016 and 2015 except for the early retirement pay and separation benefits which were not audited pending the submission of supporting documents and management's reply to the audit observation on the legality and regularity of the coverage and computation of both benefits. The audit was aimed at expressing an opinion as to whether the financial statements present fairly the Corporation's financial position, results of operations and cash flows, and at determining the Corporation's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of its operations.

## Financial Highlights

### Comparative Financial Position

	2016	2015	Increase (Decrease)
Assets	311,706,493	496,710,538	(185,004,045)
Liabilities	23,630,020	160,730,703	(137,100,683)
Equity	288,076,473	335,979,835	(47,903,362)

### Comparative Results of Operation

	2016	2015	Increase (Decrease)
Total revenues and other income	6,173,612	15,772,063	(9,598,451)
Retirement pay	43,826,487	0	43,826,487
Salaries, wages and employee benefits	6,891,263	8,346,839	(1,455,576)
MOOE and income tax	3,359,224	5,869,549	(2,510,325)
Total expenses	54,076,974	14,216,388	39,860,586
Net profit (loss)	(47,903,362)	1,555,675	(49,459,037)

## Independent Auditor's Report on the Financial Statements

We rendered an unqualified opinion on the Corporation's financial statements for the year 2015 and a qualified opinion for the year 2016 because of our inability to audit the early retirement incentive pay and separation pay in the total amount of P66.856 million pending the submission of the disbursement vouchers with their supporting documents.

## Significant Audit Observation and Recommendation

BMHI, by virtue of its de-activation, is deemed subject to evaluation for formal abolition under the provisions of RA No. 10149, unless recommended for reactivation to the Governance Commission for Government Owned and Controlled Corporations (GCG).

The BCDA Governing Board, in its Board Resolution No. 2014-12-186, resolved to refocus BMHI's activities to be a Special Purpose Vehicle (SPV), after its de-activation, with the objective of entering into Joint Venture Agreements and Disposition and Privatization Agreements for the Clark Green City Project, envisioned to be the country's first smart, green and disaster-resilient metropolis with development costs estimated at P607 billion, most of which will be covered by partners from the private sector.

In view of BCDA's intention to reconfigure BMHI as an SPV in the Clark Green City Project, we recommended that BCDA conduct a feasibility study on strengthening the capability and maximizing the potential of BMHI to support the joint venture, disposition and privatization agreements of BCDA. With the huge prospective undertakings ahead, BMHI may grow to be financially self-sustaining and resilient and, gradually, wean from BCDA's financial support. Should the results of the feasibility study be favourable to BMHI, then BCDA may recommend its reactivation with the GCG. Non-action on the part of BCDA may lead to the eventual abolition of BMHI, which is not the intention of the former BCDA Governing Board.

**Disallowances as of Year-end**

As of December 31, 2016, BMHI has a total disallowance of P5,944,132.

**Status of Implementation of Prior Years' Audit Recommendations**

Of the four audit recommendations contained in the previous years' Annual Audit Reports, three were partially implemented and one was reconsidered due to BMHI's de-activation status.